South Carolina Retirement
SYSTEMS UPDATE

Active Member Edition

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From the Director

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SC General Assembly Passes COLA Legislation

During its 2008 legislative session, the South Carolina General Assembly took a significant step toward protecting the purchasing power of South Carolina's retired public workforce and securing the financial stability of the state's public pension plans.

The passage of House Bill 4876 provides an automatic annual cost-of-living adjustment (COLA) of up to 2 percent each July for eligible annuity recipients of the South Carolina Retirement System (SCRS) and the Police Officers Retirement System (PORS). If, however, the Consumer Price Index (CPI) as of the previous December 31 is less than 2 percent, the automatic COLA would equal the increase in the CPI.

The passage of this bill, which contained provisions that included the recommendations of the State Treasurer's COLA Task Force concerning retiree COLAs, is important because future ad hoc COLAs, those that are neither guaranteed nor pre-funded, are not included in a retirement plan's liabilities until the time at which they are approved.

When approved, granted ad hoc COLAs must be paid from the assets of the retirement trust funds or through some other funding mechanism.

Historically, ad hoc COLAs were granted and paid from the assets of the retirement trust funds. By 2001, however, the funding level of SCRS could no longer support the continued granting of ad hoc COLAs and remain within national governmental accounting funding standards.

By guaranteeing an annual COLA and providing a stabilized funding mechanism, the cost of the COLA is recognized as a liability for accounting purposes up front. Payments for this liability are made over a period of time, much like payments made on a home mortgage. Additionally, by guaranteeing and pre-funding a COLA, eligible retirees can count on future protection of their purchasing power.

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2008 Legislative Update

The South Carolina General Assembly passed several laws during its 2008 session that relate to the state's public employee retirement plans.

The passage of House Bill 4876 resulted in the following changes:

- Eligible annuity recipients of the South Carolina Retirement System (SCRS) and the Police Officers Retirement System (PORS) will now receive an automatic annual cost-of-living adjustment (COLA) of up to 2 percent each July 1 (see Page 1).

- State statute was modified to allow members to select a 100 percent survivor benefit payment plan only if the member's designated beneficiary is the member's spouse, if multiple beneficiaries are designated, or if a sole beneficiary who is not the member's spouse is within an adjusted 10 year age difference limit determined by an Internal Revenue Code (IRC) formula. The non-spousal limits do not apply if the non-spousal beneficiary is older than the member or in the case of disability retirement or death benefits. If, based on the IRC formula, the adjusted age difference for you and a non-spousal beneficiary exceeds the IRC limits, the 100 percent survivor option payment plan would not be available

to you. You would be able to select the 50 percent survivor option payment plan, however, with no IRC restrictions.

- The age at which a member of the Judges and Solicitors Retirement System (JSRS) who is currently employed as a judge, a solicitor, or a circuit public defender may elect to receive a retirement benefit from his General Assembly Retirement System (GARS) account if he is otherwise eligible for a GARS benefit was lowered (from 65 years to 62 years).

House Bill 4339 codified the temporary provision put into the 2007 appropriations bill that amended the statutes governing the National Guard Retirement System (NGRS) to reopen the system to persons becoming members of the National Guard after June 30, 1993.

House Bill 4340 amended the statutes governing the South Carolina Deferred Compensation Commission to include as an ex officio member the chief investment officer for the South Carolina Retirement System Investment Commission.
The South Carolina Deferred Compensation Commission oversees the South Carolina Deferred Compensation Program, which is a voluntary, supplemental retirement savings program available to most public employees (see Page 3).

Installment Service Purchase Program Rate Changes

The interest rate for the Installment Service Purchase program is 7 percent effective July 1, 2008. The 7 percent rate applies to new accounts activated July 1, 2008, through June 30, 2009.

The Installment Service Purchase program allows active contributing members to establish eligible service credit through installment payments. For more information, contact, Customer Services toll free at (800) 868-9002 (within SC only), or at (803) 737-6800, or www.retirement.sc.gov.

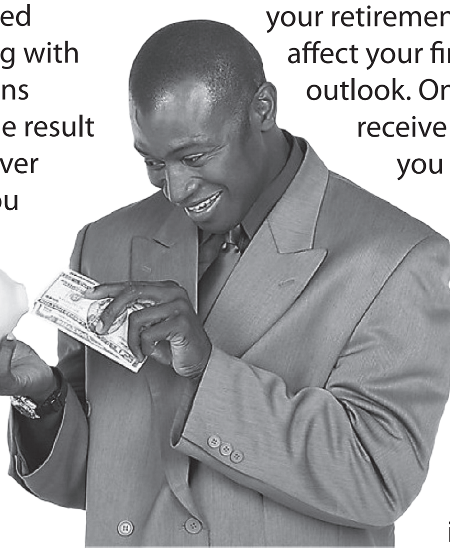
Program Can Help You Build Your Retirement Nest Egg

To maintain your standard of living when you retire, most financial professionals agree that you will need about 70 percent to 90 percent of the income you had before you retired. Generally, your pension benefit and Social Security will cover only a portion of this amount. The rest will have to come from what you do on your own – from how much you save and how you invest.

One option to assist you in meeting your financial needs in retirement is the South Carolina Deferred Compensation Program (SCDCP). The SCDCP offers a 401(k) savings plan and a 457 savings plan. These voluntary retirement savings plans can help you supplement your Retirement Systems' pension. You can participate in both of these plans. It's up to you whether you join. However, before enrolling, be sure to check with your employer to see if this option is available to you.

If you participate, you decide how much to have deducted automatically from your pay, tax-deferred with the 401(k) and 457 plans– that means no current taxes are taken out. That amount is put into an account in your name. You decide where to invest your money among the mutual funds and other investment products offered.

The investment earnings on your tax-deferred savings also grow tax-deferred. That means there's more money to grow in your account, compared with saving and investing with after-tax dollars with plans outside of the SCDCP. The result can be greater savings over time, especially when you combine tax deferral with the power of compounding. You don't pay taxes on your account until you take it out of the plans.



The SCDCP also offers a Roth 401(k) option to all state employees and employees of any agency for which the State Comptroller General's Office handles payroll. With the Roth 401(k) option, you can make after-tax contributions today and take tax-free withdrawals at retirement. Employees of agencies whose payroll is not handled by the State Comptroller General's Office will need to check with their payroll office to determine if this option is available to them.

The SCDCP has partnered with ING to offer you personalized professional, objective investment advice. There are two levels of service to choose from depending on the amount of help you are looking for:

- Personal Online Advisor: you use an interactive Web-based tool to see how changes to risk, contribution levels, or your retirement age may affect your financial outlook. Once you receive your advice, you decide if you want to take action yourself. There is no charge or obligation involved in using this service. It is available to you whenever you need to review or change your savings strategy.

- Professional Account Manager: a full-service, fee-based option designed to help you with your retirement and investment planning. Your advisor will provide you with a complete retirement assessment and specific recommendations tailored to your specific goals. The initial consultation is free. You can then decide whether to use the advice you receive or not, or to enroll in the fee-based program.

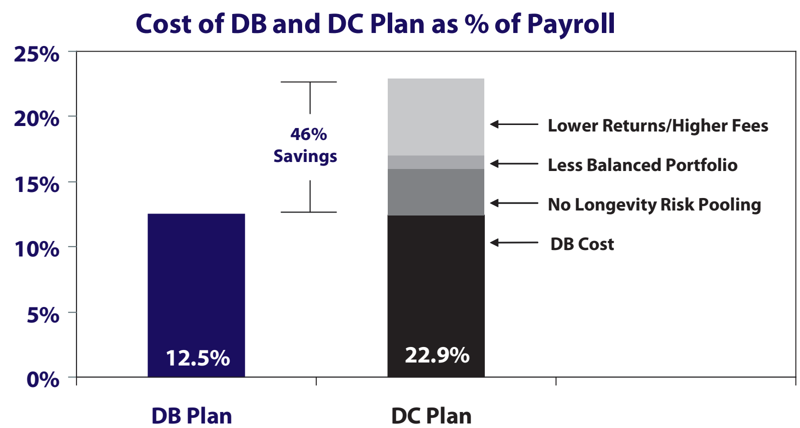
For more information about the SCDCP, contact ING, the SCDCP's record keeper and administrator, toll free at (866) 826-7283, or visit the SCDCP's Web site at http://scrs.csplans.com.

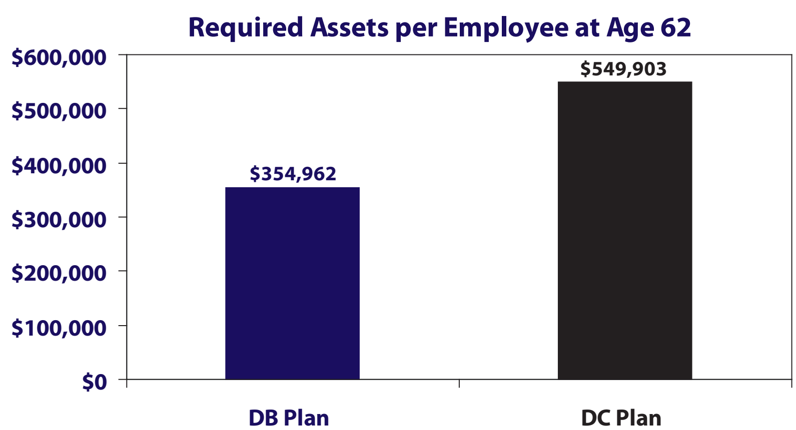
Traditional Pension Plans Prove to be a Good Value

A new report finds that defined benefit (DB) pensions can deliver the same retirement income to a group of employees at 46 percent lower cost than individual defined contribution (DC) accounts.

The analysis calculates that DB plans:

- Pool the longevity risks of large numbers of individuals – resulting in a 15 percent cost savings.
- Can perpetually maintain an optimally-balanced investment portfolio rather than the typical individual strategy of down-shifting over time to a lower risk/return asset allocation – resulting in a 5 percent cost savings.
- Achieve higher investment returns as compared to individual investors because of professional asset management and lower fees – resulting in a 26 percent cost savings.





The study, "A Better Bang for the Buck: The Economic Efficiencies of Defined Benefit Pension Plans," was published by the National Institute on Retirement Security.

"The analysis is a myth buster when it comes to conventional wisdom about the cost of retirement plans," said Beth Almeida, report author and executive director of the National Institute on Retirement Security. Almeida added, "The analysis indicates that qualities inherent in DB plans fuel their fiscal efficiency. The report provides a new lens for policymakers, employers and employees, who are all struggling to ensure adequate retirement income with the fewest dollars possible."

The report also indicates that DC plans are essential to the retirement security equation by enabling workers to save in a manner that reflects individual situations.

The report and more information are available at www.nirsonline.org.

Are you getting closer to retirement eligibility? Contact your employer or go to www.retirement.sc.gov to sign up for a pre-retirement education seminar.

Have any retirement related questions? Contact Customer Services toll free at (800) 868-9002 (within SC only), or at (803) 737-6800, or www.retirement.sc.gov.

From the Director

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The automatic COLA provisions became effective June 17, 2008, the date the State Budget and Control Board, as trustees for the Retirement Systems, approved an increase in the Retirement Systems' assumed rate of investment return to 8 percent from 7.25 percent.

House Bill 4876 also authorized the Board to approve ad hoc COLAs in addition to the automatic COLA of up to 2 percent. This means that if the CPI increases by more than 2 percent, the Board may increase the COLA beyond the automatic annual 2 percent up to the total percentage increase in CPI or 4 percent, whichever is less. However, the increase beyond the automatic 2 percent may only be granted when certain conditions are met.

> ***By guaranteeing an annual COLA and providing a stabilized funding mechanism, the cost of the COLA is recognized as a liability for accounting purposes up front. Additionally, by guaranteeing and pre-funding a COLA, eligible retirees can count on future protection of their purchasing power.***

Previously, ad hoc COLAs could be granted as long as the system(s) could support the funding of the COLA and maintain an unfunded liability amortization period of 30 years or less. Historically, COLAs have been partially funded by employer contribution rate increases, and more recently, an increase in employee contributions as well.

House Bill 4876 protects the systems from increased liabilities due to ad hoc COLAs by preventing ad hoc COLAs from being granted if a system's amortization period for the prior year's unfunded liability exceeds 25 years and by prohibiting employer contribution rate increases to support the granting of an ad hoc COLA. The provisions also require that a system's amortization period decrease by one year in the most recently concluded fiscal year and the estimated funded ratio not decrease.

I applaud the efforts by the General Assembly and the State Treasurer's COLA Task Force, and would like to express my gratitude to them for taking the necessary steps to secure the funding of the state's pension plans and to protect the purchasing power of our public retirees.

Systems Update is published periodically by the South Carolina Retirement Systems, a division of the State Budget and Control Board.

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Considering TERI? Be Sure You Understand Advantages, Risks

If you are a South Carolina Retirement System member who is eligible or may soon be eligible for service retirement, you may be considering participation in the Teacher and Employee Retiree Incentive (TERI) program.

Before you decide to participate in TERI, be sure you understand all of the advantages and the risks.

The major advantage to participating in TERI is that it allows you to retire and begin accumulating your annuity on a tax-deferred basis without terminating employment. You may defer receipt of your retirement annuity for up to 60 months through TERI. No interest is paid on annuity benefits accumulated in your TERI account. However, retiree cost-of-living adjustments are applied to a TERI participant's monthly annuity in the same manner in which other retirees receive such adjustments.

If you are an employee covered by the State Employee Grievance Procedure Act, when you participate in TERI you become an at-will employee. This means that your employer may terminate your employment at any time and for any reason, and you do not have grievance rights. Before entering the TERI program it might be helpful to ask yourself, if your job ended tomorrow, would you be able to live off of your retirement income alone?

Another point to consider is that after your TERI period ends, you are not guaranteed employment. Will you be financially ready to terminate employment in five years (or less)? If your answer is no, the TERI program may not be an appropriate option for you. Participation in TERI does not guarantee employment for the entire specified program period.

Also remember that as a TERI participant you are not eligible for disability retirement and you do not earn any additional service credit.

As with any major life decision, planning is a good strategy. Consider all your expenses (mortgage, college, automobile, unexpected costs, etc.) and weigh the advantages against the possible risks before you make your decision. Remember, there is a lot more to retirement than simply no longer going to work.

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